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PICKANDS MATHER & CO.



ANNUAL REPORT FOR 1966

Annual Report
for the year ending December 31, 1966
Pickands Mather & Co.

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The Year's Highlights

	1966	1965*
Sales of products and operating revenues	\$72,165,000	\$69,497,000
Depreciation and amortization	2,370,000	2,198,000
U. S. and foreign income taxes	3,507,000	3,417,000
Net income:		
Amount	6,466,000	5,802,000
Per share of Common stock (average outstanding) . .	3.09	2.82
Dividends paid:		
Combined Preferred and Common stocks	2,018,000	1,603,000
Per share on Common stock	.75	.50
Capital expenditures and investments (net)	15,348,000	3,251,000
At Year End:		
Working capital	\$10,935,000	\$17,453,000
Long-term debt	6,674,000	5,401,000
Shareholders' equity	61,662,000	56,541,000
Common shares outstanding:		
At year end	1,979,301	1,901,721
Average in year	1,944,137	1,897,771

*Includes both the Company and The Interlake Steamship Company on a pooling of interests basis.

Annual Meeting

The annual meeting of stockholders will be held at 10 a.m., Wednesday, April 12, 1967, at 100 West Tenth Street, Wilmington, Delaware. A formal notice of the meeting, with a proxy statement and form of proxy, are being mailed to each stockholder with this report.

To Shareholders and Employees:

The year 1966 was an important one in the eighty-three year history of Pickands Mather & Co. Organized as a partnership in 1883, the business was operated as such for some seventy-odd years, during which the formation and operation of a corporation held by the partnership played an increasingly important part. In 1960, that corporation assumed the entire business of Pickands Mather & Co., including the name. In 1966, The Interlake Steamship Company, which the partners of Pickands Mather were instrumental in organizing and which had been managed by Pickands Mather throughout its existence, was consolidated into Pickands Mather. This brought into the Company about 2,000 additional stockholders. The cycle from private partnership to publicly-owned corporation was thus completed in 1966.

In connection with the merger of Interlake Steamship into Pickands Mather, certain major changes were made in the Company's capital structure. The most significant of these were the two-for-one split of the old Class A and Class B Common, \$1 par value, stocks and their reclassification into new Common, 50¢ par value, stock; the conversion of most of the old First Preferred, \$100 par value, stock into new Common stock and the redemption of the balance of the First Preferred; and the issuance of new Convertible Preferred, Series A, \$25 par value, stock and new Common stock in exchange for the capital stock of Interlake Steamship. More complete details are included in Note 1 of Notes to 1966 Consolidated Financial Statements.

All areas of our business were active in 1966 and contributed to making it the best year from a profit standpoint for the combined companies since Pickands Mather became a corporation in 1960.

Such profits amounted to \$6,466,161, equivalent to \$3.09 per share of Common stock, compared with \$5,801,574, or \$2.82 per share, in 1965, both rates being after preferred dividends and based on the average number of shares outstanding during the respective years on a reorganized and pooled basis.

Quarterly dividends at the annual rate of \$1.15 per share were paid on the newly-issued Convertible Preferred stock and amounted to 57½¢ per share for the year 1966. Quarterly

dividends of 25¢ per share were paid on the new Common stock on September 1 and December 1 which, with previous payments, brought total dividends on the Common stock in 1966 to 75¢ per share. At the meeting of the Board of Directors on January 16, 1967, dividends of 28¾¢ on the Preferred stock and 25¢ on the Common stock were declared, payable March 1 to stockholders of record on February 14.

On March 1, 1967, the Company purchased the Steamer SHENANGO II, a modern 25,000-ton capacity bulk carrier, with the purchase price being payable in installments during 1967. There is sufficient iron ore tonnage available to assure full operation of the vessel in the years ahead. It will be renamed in honor of Charles M. Beeghly, Chairman of the Board of Jones & Laughlin Steel Corporation. Our subsidiary, Labrador Steamship Company Ltd., has taken delivery of a maximum-size Canadian vessel which the Company had previously agreed to purchase. It will be named the V. W. SCULLY, in honor of the Chairman of the Board of The Steel Company of Canada, Limited. With these additions and our continuing program of modernization, we believe our fleet is today as modern and efficient as any on the Great Lakes and St. Lawrence Seaway.

To provide for these vessel acquisitions, as well as for future capital requirements, arrangements were made with the banks presently participating in our \$10 million revolving credit and term loan agreement to increase the amount of the credit to \$17½ million and to extend to December 31, 1967, the date of its conversion into a term loan, which will be payable in five equal annual installments commencing December 31, 1968. This, together with the normal cash flow from operations, provides amply for any capital requirements which can be foreseen at this time.

Announcement was made in November that the Company was planning the acquisition of the assets of United Pocahontas Coal Company, a producer of low-volatile coal. Certain requirements of the purchase agreement have not yet been completed, however, discussions are continuing.

With the necessity of closer contact with the SEDEMA operation in Belgium and the more active interest in the European market, the Company opened an office in Paris, France, under the direction of René J. Mérieault. In

addition to his familiarity with the European industrial community, especially the iron and steel industry, Mr. Mérieault is an experienced mining engineer and, therefore, particularly suited to direct our efforts in this area.

Interlake Steel Corporation, in which your Company has a 9.1% stock interest, reported a record year, further demonstrating the advantages which were obtained by Interlake Iron Corporation and Acme Steel Company when they merged in December, 1964, to become Interlake Steel Corporation. Published earnings for the year 1966 amounted to \$16,481,000, or \$3.68 per share, compared with \$13,861,000 and \$3.02 per share in 1965. The outlook is for further improvement in earnings as the inherent advantages of the consolidation continue to emerge. The 405,877 shares of Interlake Steel Corporation stock owned by Pickands Mather, most of which were acquired at the formation of Interlake Iron Corporation in exchange for mining and other properties, represent a major asset of the Company. It is carried on the Company's books at a cost of \$20.18 per share and, at the current dividend rate, produces an annual income of about \$730,000.

At the Board of Directors' meeting on October 17, 1966, I. F. Freiburger and Robert F. Black retired from the Board. They were both long-time Directors of Interlake Steamship and, over many years, contributed wisdom and vision to its management. At that meeting, the Directors elected as their successors J. Richardson Dilworth, of Rockefeller Family & Associates, and H. A. Shepard, President of TRW Inc. The other Directors who are not part of the Company's present management group are A. S. Glossbrenner, Chairman of The Youngstown Sheet and Tube Company; James A. Hughes, Vice Chairman of the Board of Diamond Alkali Company (both of whom were Directors of Interlake Steamship); H. P. Junod, a retired officer of Pickands Mather and a Director of Interlake Steamship; and E. Mandell de Windt, Executive Vice President, Eaton Yale & Towne Inc. We believe that our Board of Directors is well balanced, composed as it is of the six senior officers of the Company and six outstanding individuals from outside the management, who bring to the Board a broad experience in a wide spectrum of other industries and interests.

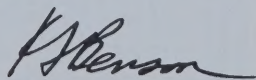
Also, at the October meeting, the Directors

designated President Keith S. Benson as Chief Executive Officer of the Company, commencing January 1, 1967. In that capacity, he succeeds John Sherwin, who retired from active management on December 31, 1966, in accordance with the Company's retirement policy, but who remains as Chairman of the Board of Directors and the Executive Committee, with limited responsibilities.

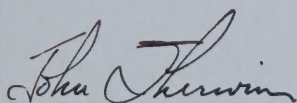
At the meeting of the Board on January 16, 1967, R. P. Batchelor, Jr., Manager of Engineering and Construction; B. F. Borgel, Manager of Operations; J. S. Crawford II, Manager of the Coal Division; F. R. Dykstra, President of Manganese Chemicals Division; and Elton Hoyt III, Manager of the Pig Iron, Ferroalloy and Coke Division, were elected Vice Presidents of the Company. These men, together with W. E. Conway, Executive Vice President of Pickands Mather & Co. International, J. H. Bemis, President of Milwaukee Solvay Coke Division, and the officer-directors, make up the Board of Managers of the Company. The ages of the active members of the Board of Managers range from 40 years to 62 years, with the average being 50.4 years.

While the year 1967 commences with many uncertainties in the business outlook, present indications are that our business should be comparable in volume and profits to 1966. Obviously, any major variations in the level of operations of the industries on which we are dependent will reflect in our operations as well; however, no major changes in the activities of these industries are evident to us at present.

On Behalf of The Board of Directors



K. S. Benson
President



John Sherwin
Chairman

March 13, 1967



John Sherwin

K. S. Benson

Management services

Operating mines

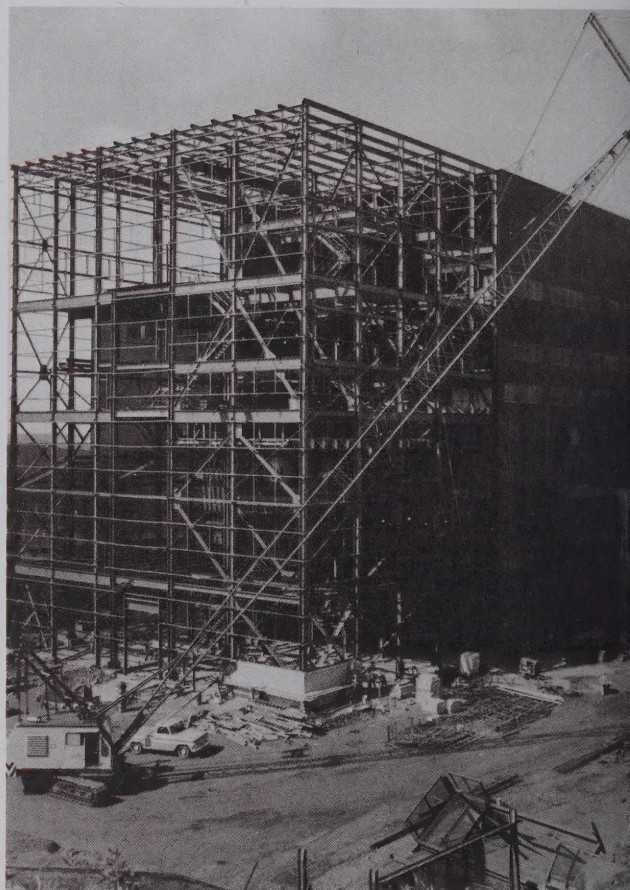
During 1966, the six mines managed by Pickands Mather produced a total of 16.1 million tons of iron ore, of which 13.3 million tons were high grade pellets. This compares to total production in 1965 of 14.7 million tons from mines then operating, of which 11 million tons were pellets.

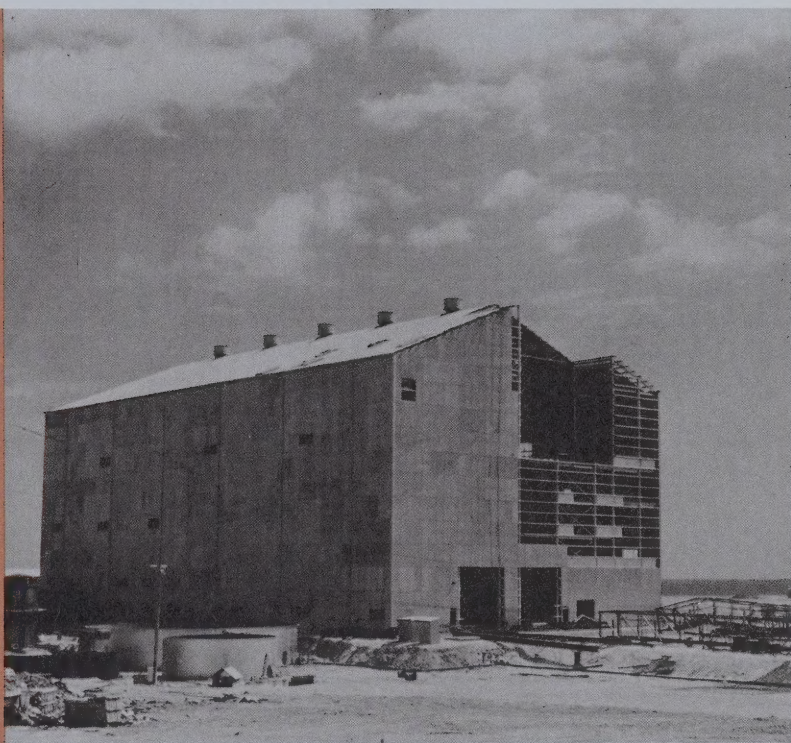
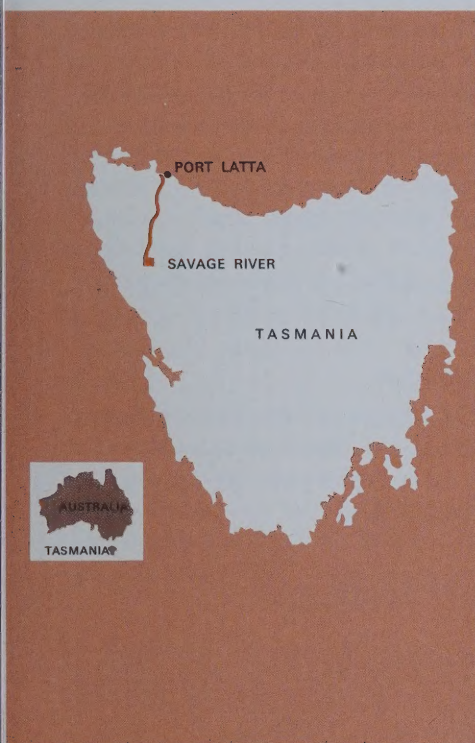
At Erie Mining Company, the largest single mine under Pickands Mather management, the program to expand production capacity from 8 million tons of pellets per year to 10.3 million tons per year is proceeding well, and at the end of the year approximately 86% of the estimated construction cost of \$54 million had been expended. During 1967, Erie is scheduled to produce at its new rated capacity.

A serious fire took place at the Scully Mine in Wabush, Labrador, on February 7, 1966. Through the ingenuity and hard work of the Wabush organization and the many others who helped, the plant was brought back to full operation in mid-April, which was some four months ahead of early optimistic estimates. Great credit is due the entire operating organization for this accomplishment. Although recovery from this disaster was much faster than initially believed possible, shipments were curtailed later in the year because of labor difficulties and reduced operations due to floods on the Quebec North Shore & Labrador Railway, which transports the concentrates from the Scully Mine to the Arnaud pellet plant at Pointe Noire, Quebec.

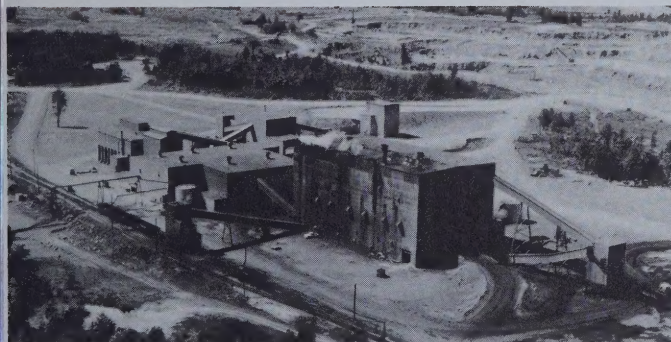
During 1966, two European steel companies which participate in the Wabush joint venture indicated a desire to sell their interests because of changes in their iron ore supplies. Other companies participating in the project, including Pickands Mather, have agreed to acquire these interests and, at the same time, expand the

Iron ore pellets are today's leading blast furnace feed. Expansion and new construction now under way will increase the total pellet producing capacity of Pickands Mather-managed mines to over 20 million tons annually.





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1. Addition to the iron ore pelletizing plant, where pellets are heat-hardened, at Erie Mining Company in Minnesota, as part of the expansion program now nearing completion.

2. Increasing the iron ore production capacity of Wabush Mines requires additional processing equipment in parts of this plant complex of the Scully Mine at Wabush, Labrador, and in the pelletizing plant at Pointe Noire, Quebec.

3. Savage River Mines' iron ore pelletizing plant on the coast of Tasmania at Port Latta. Pellet storage and handling facilities and an off-shore ship loader are being built nearby.

4. The first pelletizing operation in Quebec, The Hilton Mines produces about 900,000 tons of iron ore pellets yearly for its owners — The Steel Company of Canada, Limited; Jones & Laughlin Steel Corporation, and Pickands Mather.

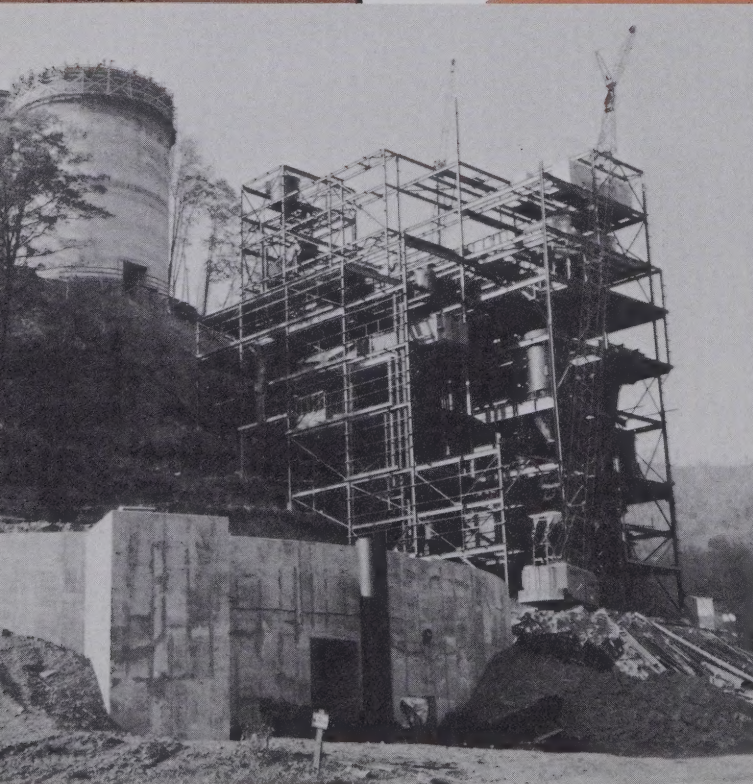
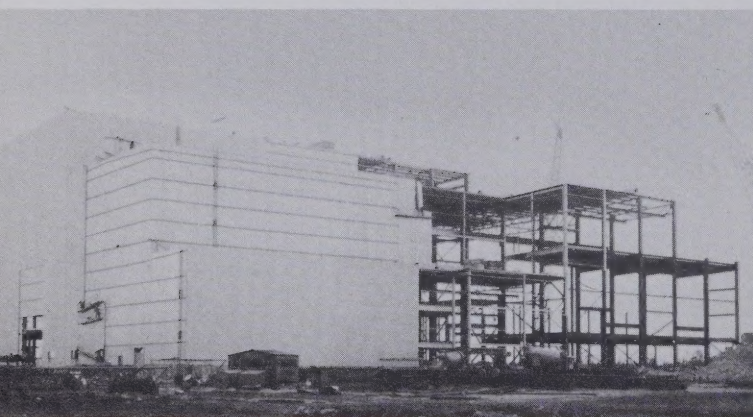
productive capacity of the mine and pellet plant to 6 million tons of pellets per year. During 1967, this reorganization and expansion program will be under way and production is expected to reach its new rated capacity early in 1968. The tonnage of pellets available to the Company each year from this source will be increased about 22% by this program.

The Mahoning, West Hill, and Danube mines in Minnesota and The Hilton Mines in Quebec operated at their normal production capacities.

New mines

Construction of the Savage River Mines project in Australia continues according to schedule and, at the end of 1966, about 44% of budgeted expenditures had been made. This mine, which will eventually produce 2¼ million tons of high grade pellets for the Japanese market, will begin shipments in early 1968.

Construction of The Griffith Mine, located in northwestern Ontario, is proceeding according to schedule and expenditures at the end of 1966 totaled approximately \$22 million out of a total



budgeted capital cost of over \$56 million. This mine, which will ultimately produce 1½ million tons of high grade pellets for its owner, The Steel Company of Canada, Limited, is scheduled to start deliveries in early 1968.

Also under construction for the Steel Company of Canada is the Chisholm Mine, which is a coal mine located in eastern Kentucky. The construction program will be completed and first shipments to the owners will be made before midyear.

Dock operations

Tonnages handled at the coal and iron ore docks managed by Pickands Mather were reduced somewhat from the previous year, but operations were generally satisfactory.

Division operations

Interlake Steamship

While fleet earnings were relatively satisfactory last year, it was the result of full operation of our larger vessels under excellent conditions during most of the season. Freight revenues totaled \$15.8 million, compared to \$13.8 million in 1965. Wages and other costs of operating the fleet have increased substantially each year since 1957, when the freight rate structure was the same as in 1966. This condition cannot continue if a modern Great Lakes fleet is to be maintained to serve the steel industry.

About mid-season, the Company's Steamer FRANK PURNELL, which was converted into the first self-unloader in the Interlake fleet, was

1. For maximum efficiency in producing 1½ million tons of pellets annually at The Griffith Mine, the iron ore processing and the maintenance facilities are in the same building.

2. At the Chisholm Mine, raw coal will come up from underground to the circular storage silo and then, with the help of gravity, flow through the cleaning plant. Annual production capacity is one million tons.

3. The Steamer Shenango II will be renamed in honor of C. M. Beeghly in 1967, her first season under the Interlake Flag. Built in 1959, the 25,000 ton-capacity ship is 710 feet long and 75 feet wide.

placed in this service. Operations of this ship were completely up to expectations.

In December of 1966, the Steamer WILLIAM P. SNYDER JR. was acquired from The Shenango Furnace Company. This acquisition was made to help take care of anticipated increases in iron ore floating requirements in the years ahead.

At the present time, it appears that 1967 will be another active year for the United States fleet, including the newly acquired SHENANGO II. However, this early in the year, floating commitments are only tentative and are always subject to change, depending on the steelmaking rates of the fleet's customers.

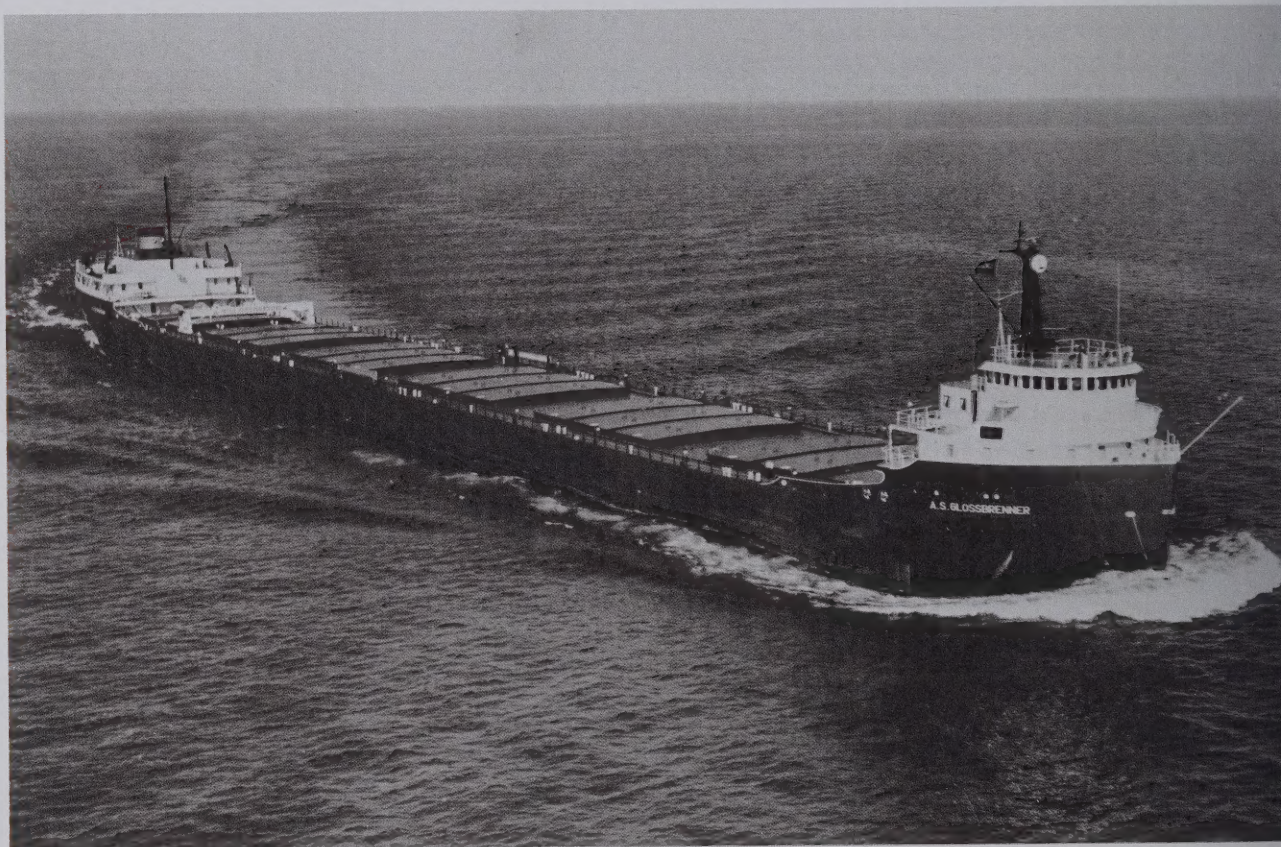
Negotiations are currently under way to sell the Steamer HARRY W. CROFT, which has not operated since 1960, as part of a plan to eliminate

older, less profitable ships from the fleet while acquiring newer, more economic units.

Labrador Steamship

During 1966, Labrador Steamship operated three ships in the Canadian iron ore, coal, and grain trade. Freight revenues increased from \$550,000 in 1965 to \$1.6 million in the year. The M.V. A. S. GLOSSBRENNER was launched in May and was placed in service during the latter part of July. Operations of this new maximum-size ship equaled all expectations. The second maximum-size bulk carrier, to be named the V. W. SCULLY, was operated under a joint venture with a Canadian shipping company during the year. It will be under Labrador Steamship operation hereafter. The Canadian fleet is now composed of two new maximum-size vessels and two

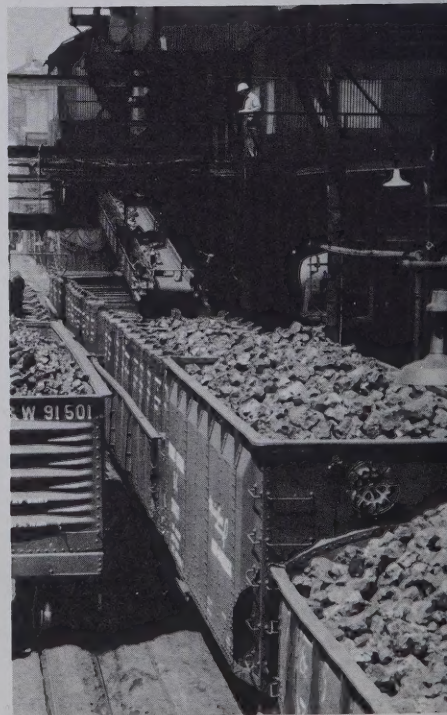




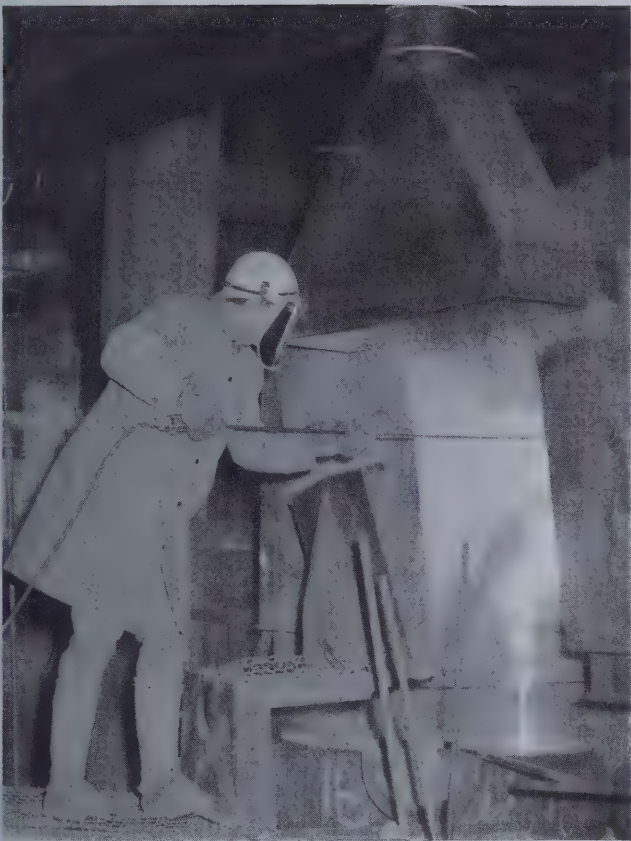
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1. The 730-foot Motor Vessel *A. S. GLOSSBRENNER* is the largest size ship that can sail the St. Lawrence Seaway. During the 1966 season, the diesel-powered ship, having a 26,000-ton cargo capacity, carried iron ore from ports in eastern Quebec to Lake Erie and, for the return trip, loaded grain on Lake Superior for delivery at ports on the St. Lawrence River.
2. The 250-foot conveyor boom of the Steamer *FRANK PURNELL* is designed to swing to either side of the ship and discharge up to 14,700 tons of cargo at 5,000 tons per hour.
3. After screening to rigid size specifications, about 300,000 tons of highest-quality foundry coke are shipped by rail and truck annually from the 200-oven plant of the Milwaukee Solvay Coke Division.
4. Massive Manganese is tapped from one of 15 cells at the Manganese Chemicals Division's plant at Kingwood, West Virginia, that electrolytically produce the high-purity metal.

medium-size efficient vessels which can go to docks with limited draft. The outlook for 1967 indicates a busy year for this operation, subject to changing conditions in the steel industry and the satisfactory renewal of the present labor contract, which expires May 31, 1967.

Milwaukee Solvay Coke

During 1966, the demand for foundry and by-product coke was strong, resulting not only in near-capacity operation of the Milwaukee plant, but also in cleaning up an excess inventory of by-product coke. The profit level of the coke operation was high. However, 1967 may bring some reduction in sales, depending on the requirements of the automotive industry, which is an important direct and indirect customer of this plant.

Manganese Chemicals

Production and sales for this division were the highest in its history and, during the year, the hydroquinone operation reached profitable levels. Demand for all of the chemical and metal products was strong during 1966, and it appears that this situation will continue through 1967. Profits for this division, while not up to expectations in 1966, were nonetheless the best in the history of the operation. With the many problems of bringing the hydroquinone operations on stream essentially solved, profits in this division should be increasing in 1967.

The SEDEMA plant in Belgium, of which Pickands Mather owns one-third and which produces a limited number of manganese chemical products, fell short of sales projections in 1966 as a result of delays in installation of equipment. However, its products were well received in the Common Market and 1967 should bring substantial improvement in sales.

Agency and broker sales

Coal

The Coal Division of Pickands Mather sold or acquired for our own use about 11 million tons of coal during the year, which was approximately equal to the tonnage in 1965. Sales were affected

by a 10-day strike by the United Mine Workers and a general shortage of desirable coals. During 1966, Pickands Mather became exclusive sales agent for four more coal operators. Assuming that business conditions remain good, total demand for coal should be strong during 1967.

Fuel oil sales by this division again increased substantially in 1966 and the outlook for further growth in this field continues to be favorable.

Pig iron, ferroalloys and coke

Sales of pig iron and ferroalloys, as well as some foundry coke, are made as exclusive sales agent for Interlake Steel Corporation. During 1966, pig iron sales were under severe competition from scrap and imported low-priced pig iron.

Ferroalloy sales held up well during the year, as a result of continued high demand from the steel industry. During 1967, the intense competition with pig iron will continue, but the sales of ferroalloys and agency coke should be at satisfactory rates.

Prencos

Last year, sales efforts were increased under the agency agreement with Prencos Manufacturing Co. of Royal Oak, Michigan, in which Pickands Mather also has an investment. Sales of these industrial waste incinerators take longer to develop than was originally expected and, consequently, were not as high as projected. Several important installations have been in operation for some time and have conclusively proven the effectiveness and efficiency of the unit. With the continually increasing attention to water and air pollution problems, an expanding market for Prencos units seems assured.

Iron ore

The Company's share of production of iron ore from The Hilton Mines and the Wabush project was sold during the year. Brokerage sales of other ores were at a lower volume than 1965.

Exploration, consulting and development

Intensive field work continued in the two major non-ferrous exploration programs in Australia

which are managed by the Company. Geological work on surface and prospecting developed several areas of interest which warranted drilling. Although no significant ore bodies have been discovered, the prospects for these programs continue to be good and the participants have authorized field work to continue this year at rates comparable to 1966.

During 1966, Company geologists continued to investigate several ferrous and non-ferrous mining possibilities in North America, South America, and Africa.

No significant developments took place in the consulting and research programs in the field of direct reduction of iron ore; however, the Company continues to follow developments in these processes very closely.

Total expenditures in 1966 for exploration, investigation, and research amounted to approximately \$1,550,000, of which \$874,000 was for the account of the Company itself and the balance was borne by other companies participating in these programs. In 1967, these expenditures are expected to be some 25% greater, due to demands of projects now under way. While these expenditures are large for this Company, it is believed that the prospects in the areas being covered are sufficiently good to justify programs of this magnitude, at least through 1967.

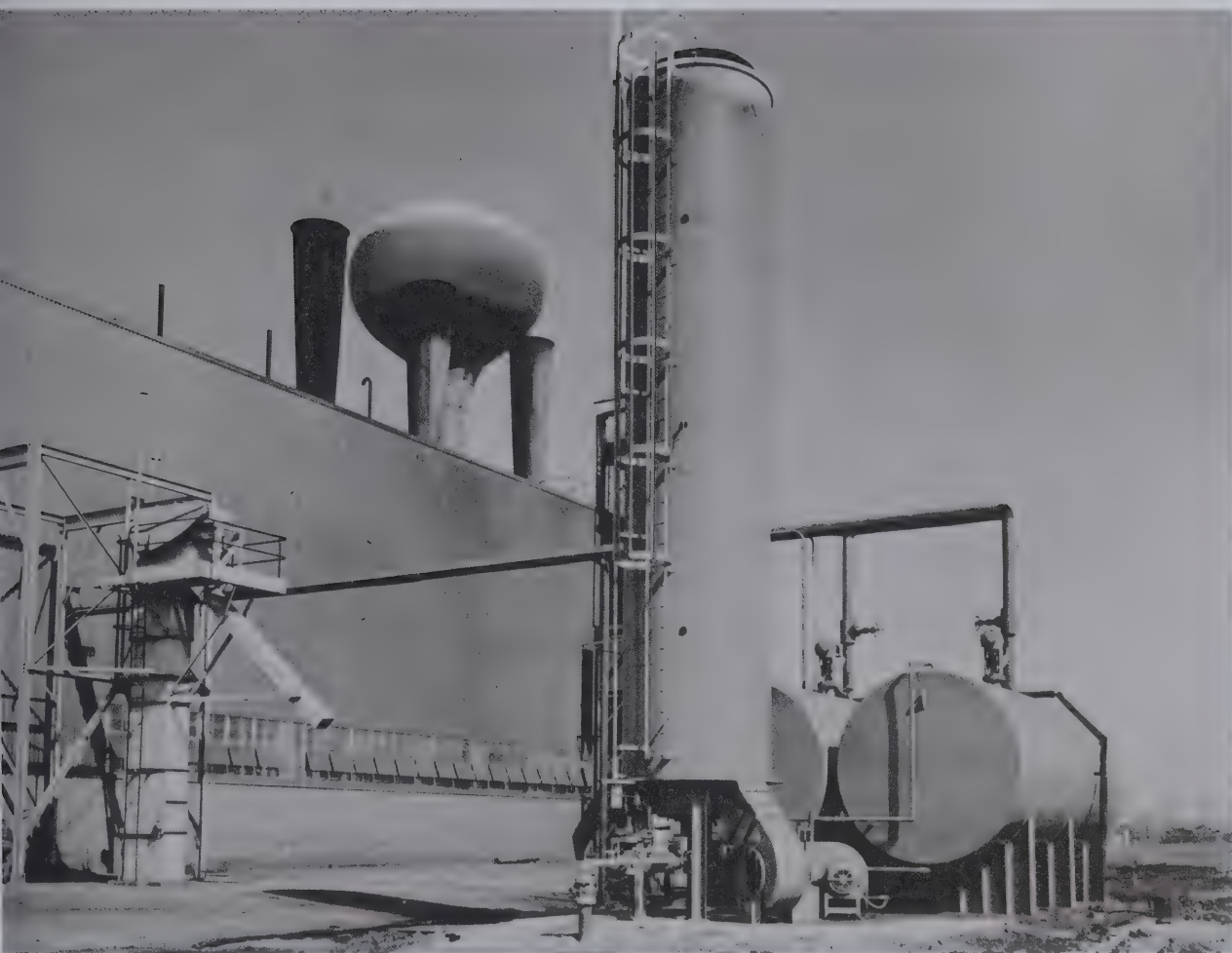
Investments

Wabush Mines

As a result of the reorganization and addition to capacity of the Wabush project, the Company's investment in it will increase approximately \$325,000.

Savage River Mines

In accordance with the original financing plan, the Company, together with the other United States organizers, sold part of its investment in the Savage River Mines project to five financial institutions and two corporations in Australia. It is felt that these strong Australian partners will benefit the Savage River project and will be important to the future of Pickands Mather operations in Australia. After giving effect to these sales, Pickands Mather's interest in the project is approximately 12%.



1. Preenco industrial waste disposal systems use controlled burning at high temperatures to eliminate fluid industrial wastes of all kinds without odor, smoke, or visible ash.

2. A temporary driller's tripod is typical of mineral exploration the world over. Easily moved and erected, it supports the tools that take a continuous rod-shaped sample of the earth. Here one is used in checking an interesting area located by geologists carrying on the non-ferrous exploration program in Western Australia.

Consolidated Balance Sheet – December 31, 1966

ASSETS

	1966	1965*
Current assets:		
Cash and short-term securities	\$ 8,722,545	\$11,991,091
Accounts receivable (less allowance of \$131,898)	14,573,361	12,045,957
Inventories, at lower of cost or market:		
Coke, coal, iron ore and other products	2,166,435	2,479,397
Operating materials (including coking coal) and supplies	2,757,852	3,032,428
Prepaid insurance and other expenses	120,644	152,393
Total current assets	<u>28,340,837</u>	<u>29,701,266</u>
Investments and other assets:		
Securities of listed companies (quoted market \$10,906,271)	8,204,167	8,247,516
Other securities and advances	5,986,262	5,085,718
Cash surrender value of life insurance policies	913,720	1,027,878
	<u>15,104,149</u>	<u>14,361,112</u>
Capital assets, at cost:		
Mineral (principally Canadian) and other lands	2,231,789	2,209,548
Plant and equipment	10,308,855	8,586,851
Vessel property	58,726,871	50,643,918
Construction in progress	5,253,623	1,514,564
	<u>76,521,138</u>	<u>62,954,881</u>
Accumulated depreciation	26,661,536	25,233,105
	<u>49,859,602</u>	<u>37,721,776</u>
Patents and licenses, less amortization	144,119	90,897
	<u>\$93,448,707</u>	<u>\$81,875,051</u>

*Restated as described in Note 1 to the Consolidated Financial Statements.

LIABILITIES

	1966	1965*
Current liabilities:		
Accounts payable	\$10,035,431	\$ 8,922,788
Accrued payrolls, pension allowances, claims and winter repairs	1,624,253	1,152,418
Accrued taxes:		
U. S. and foreign income	1,241,840	1,945,940
Other	291,356	226,748
Obligations under vessel purchase agreements	4,212,940	—
Total current liabilities	<u>17,405,820</u>	<u>12,247,894</u>
Long-term debt:		
Revolving credit notes payable to banks, 5%, convertible to term notes payable in five equal annual installments 1968/1972 (Note 6)	4,800,000	5,300,000
Obligation under vessel purchase agreement, due \$1,043,000 in 1968 and balance in 1969	1,824,217	—
Sundry notes payable	50,000	101,000
	<u>6,674,217</u>	<u>5,401,000</u>
Reserves:		
For pension allowances and periodic fleet inspection	1,429,264	1,655,255
For future U. S. and foreign income taxes	6,277,040	5,722,750
	<u>7,706,304</u>	<u>7,378,005</u>
Minority interest in subsidiary company, etc.	<u>—</u>	<u>307,242</u>
Stockholders' equity:		
Capital stock (Notes 1-4):		
Serial Preferred — \$25 par value; authorized — 800,000 shares; outstanding — 392,225 shares of Series A, convertible.	9,805,625	9,805,625
Common — \$.50 par value; authorized — 4,000,000 shares; outstanding — 1,979,301 shares	989,651	950,860
Capital surplus (Note 5)	11,641,398	11,006,881
Retained earnings	39,225,692	34,777,544
	<u>61,662,366</u>	<u>56,540,910</u>
Commitments and contingent liabilities (Note 7)	<u>\$93,448,707</u>	<u>\$81,875,051</u>

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1966

	1966	1965*
Income:		
Sales of products	\$54,199,881	\$54,479,208
Cost of sales	48,739,679	49,742,247
Gross profit from sales	5,460,202	4,736,961
Freight and other operating revenues	17,965,284	15,018,211
Operating expenses	12,170,737	9,975,439
Gross profit from operations	5,794,547	5,042,772
Sales commissions	2,682,248	2,623,719
Management and consulting fees	2,672,460	2,201,148
Dividends, royalties and other income	2,743,487	2,471,016
	8,098,195	7,295,883
	19,352,944	17,075,616
Expenses:		
Administrative, selling and general (net)	8,204,611	7,061,775
Investigation, exploration and research	873,990	497,215
Interest on debt	301,158	297,659
Provision for U. S. and foreign income taxes:		
Current year (less investment credit: 1966 — \$635,000; 1965 — \$71,700)	2,952,734	2,824,743
Future years	554,290	592,650
	12,886,783	11,274,042
Net income for the year	6,466,161	5,801,574
Retained earnings at beginning of year:		
Pickands Mather & Co.	18,305,475	15,196,375
The Interlake Steamship Company	17,575,130	16,485,900
Pooling adjustments arising from retirement of treasury stock (deduct)	(1,103,061)	(1,103,061)
	34,777,544	30,579,214
Cash dividends paid:		
Pickands Mather & Co.:		
Serial Preferred — \$25 par value — Series A — \$.575 per share (\$1.15 annual rate)	225,536	
Common — \$.75 per share (\$.50 in 1965)	1,215,350	624,262
First Preferred, Series A (retired in 1966)	95,000	190,000
The Interlake Steamship Company	482,127	788,982
	2,018,013	1,603,244
Retained earnings at end of year	\$39,225,692	\$34,777,544
Net income per share of Common stock:		
Based on average number of shares outstanding in year	\$3.09	\$2.82
Pro forma, assuming full conversion of Serial Preferred stock	\$2.91	\$2.66

*Restated as described in Note 1 to the Consolidated Financial Statements.

Consolidated Summary of Financial Activities

FOR THE YEAR ENDED DECEMBER 31, 1966

	1966	1965*
Funds derived from operations:		
Consolidated net income for the year	\$ 6,466,161	\$ 5,801,574
Charges to income involving no cash outlay:		
Depreciation and amortization	2,370,254	2,198,229
Future U. S. and foreign income taxes	554,290	592,650
Other charges	193,055	263,567
	<u>9,583,760</u>	<u>8,856,020</u>
Other funds provided:		
Increase in long-term debt	1,273,217	240,427
Sale of stock under stock option plans	702,700	114,180
	<u>\$11,559,677</u>	<u>\$ 9,210,627</u>
Application of funds:		
Dividends paid	\$ 2,018,013	\$ 1,603,244
Investments in securities, advances, etc., (net)	788,773	1,206,271
Capital expenditures (net)	14,558,916	2,044,874
Other	712,330	382,674
	<u>18,078,032</u>	<u>5,237,063</u>
Increase (decrease) in consolidated working capital	(6,518,355)	3,973,564
	<u>\$11,559,677</u>	<u>\$ 9,210,627</u>

*Restated as described in Note 1 to the Consolidated Financial Statements.

To the Stockholders and the Board of Directors of Pickands Mather & Co.

In our opinion, the accompanying consolidated balance sheet, the related statement of consolidated income and retained earnings, and the summary of financial activities present fairly the financial position of Pickands Mather & Co. and its subsidiaries at December 31, 1966, the results of their operations and supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements

was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.
Price Waterhouse & Co.

Cleveland, Ohio
February 15, 1967

Notes to 1966 Consolidated Financial Statements

Note 1 — Changes in capital stocks and merger with The Interlake Steamship Company

During 1966 the previously issued Class A and Class B Common stocks were reclassified into new Common stock and split 2 for 1, and the conversion rights of the previously issued First Preferred, Series A, stock were changed from four shares of former Class B Common to eight shares of new Common. Following the issuance of a notice of redemption (at \$105.00 per share) of the First Preferred stock, holders of 37,165 shares elected to convert them into 297,320 shares of new Common stock and holders of 835 shares elected to receive cash.

Common stock outstanding at December 31, 1966 includes 67,220 shares sold during the year under option plans. Manganese Chemicals Corporation became a wholly-owned subsidiary of the Company upon the issuance of 10,360 shares of Common stock to the minority interest (approximately 3%), and subsequently Manganese was merged into the Company. Eight hundred shares of Common stock in treasury were retired in the year.

Under an Agreement of Merger approved by the stockholders of both companies, The Interlake Steamship Company was merged into the Company effective August 31, 1966. The agreement, among other things, amended the articles of incorporation to authorize the issuance of up to 800,000 shares, par value \$25, of Serial Preferred stock and up to 4,000,000 shares, par value \$.50, of Common stock.

In accordance with the terms of the agreement, on September 1, 1966 the Company issued 392,225 shares of Serial Preferred stock, Series A, and 353,003 shares of Common stock, par value \$.50 per share, in exchange for outstanding capital stock (excluding shares held by the Company) of Interlake, which was merged into the Company. The merger was accounted for as a pooling of interests and accordingly the accompanying statements combine the accounts and results of operations of Pickands Mather and Interlake for 1966 and the 1965 financial statements have been restated to include Interlake on a comparable basis.

Note 2 — Preferences of Serial Preferred stock

The Serial Preferred stock, \$25 par value per share, is redeemable (not prior to August 1, 1971) at \$26.25 and at decreasing amounts thereafter to \$25. The preferred stock is voting and is entitled to cumulative dividends at \$1.15 per year. It may be converted into Common stock, at the rate of 5/7ths of a share of Common for each share of Preferred.

Note 3 — Common stock reserved and stock option plans

At December 31, 1966, 280,161 shares of Common stock were reserved for conversion of Serial Preferred stock, Series A, and 380,882 shares were reserved for sale to key managerial employees by the terms of stock option plans. No options were granted or cancelled under the plans in 1966 but, as part of the Manganese merger described in Note 1, the Company assumed the obligations of Manganese for restricted options on equivalent shares of the Common stock of the Company. Additional data on options follows:

	1960 Plan	1964 Plan	Former Manganese Plan
Outstanding options at			
December 31, 1966 . . .	230,832	115,750	17,300
Portion exercisable at			
December 31, 1966 . . .	96,522	34,750	6,312
Options exercised in 1966 . .	60,970	5,250	1,000
Option price (fair market value at dates of grants) .	\$10.00	\$15.00	\$14.25

Note 4 — Contingent obligation to issued Common stock

The Company is contingently obligated to issue, in the event that the transaction is consummated, 151,917 shares of Common stock for substantially all of the assets of United Pocahontas Coal Company.

Note 5 — Changes in capital surplus

Capital surplus transactions for 1966 were as follows:

Balance December 31, 1965	
(Pickands Mather & Co.)	\$ 6,468,189
Adjustments relating to changes in capital structure (Note 1) and pooling of interests with Interlake	4,538,692
	11,006,881
Excess of proceeds over par value of common stock issued under options.	669,090
Other changes, net (deduct)	(34,573)
Balance December 31, 1966	<u>\$11,641,398</u>

Note 6 — Restriction under long-term debt

By the terms of the credit agreement underlying the notes payable to banks, the Company is required to maintain consolidated net current assets of \$10,000,000.

Note 7 — Commitments and contingent liabilities

Wabush Project — At December 31, 1966 the Company, through its ownership in three related companies, had an aggregate investment of \$3,926,236 in the Wabush Mines — Arnaud Pellets project in Newfoundland and Quebec, Canada. The Company is committed to purchase its ownership proportion (approximately 5%) of the iron ore pellets produced and to pay therefor, as a minimum, its proportionate share of the costs, with the provision that the amounts included in such costs for depreciation, depletion, etc. in any year shall not be less than the sinking fund requirements for the bonds issued to finance the project. The portion of the annual sinking fund requirements attributable to the Company's participation in the project will not exceed approximately \$485,000 annually over the next 24 years.

Savage River Project — Pickands Mather & Co. International, a wholly-owned subsidiary of the Company, through its ownership in Northwest Iron Co. Ltd., had at December 31, 1966 a 12.3% interest, carried at \$1,130,845, in the Savage River project in Tasmania, Australia, now under construction and scheduled to commence production of iron ore pellets the latter part of 1967. Both the subsidiary and the Company have, in connection with the financing by Northwest of its 50% interest in the project through the contemplated issuance of \$35,750,000 of debentures and notes, agreed, to the extent of 33-1/3%, to advance funds to Northwest required (1) to maintain its working capital at a minimum of \$500,000 and (2) to provide the project with any funds, in excess of \$87,000,000, not otherwise provided, required to complete construction of the project. The Company is also contingently obligated, to the extent of \$1,400,000, as guarantor under certain project auxiliary facility agreements.

Commitments for the purchase of plant and equipment, another lake vessel and investments are estimated to require the expenditure of approximately \$10,000,000 in 1967.



Mr. Benson

Mr. Hughes



Mr. Shepard

Mr. Glossbrenner

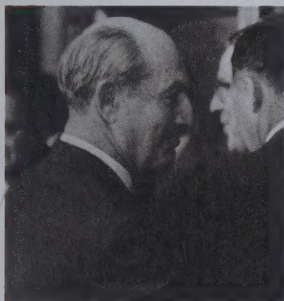


Mr. Dilworth

Mr. Carey



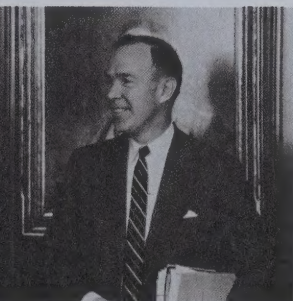
Mr. de Windt



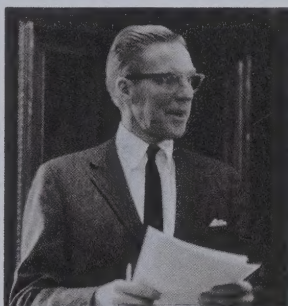
Mr. Junod



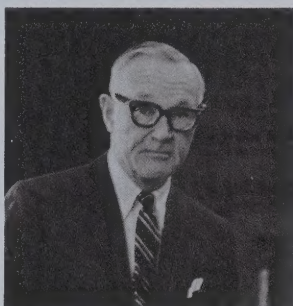
Mr. Arms



Mr. Chisholm



Mr. Lockwood



Mr. Sherwin

Board of Directors

CHARLES S. ARMS

KEITH S. BENSON*

ROBERT S. CAREY

DONALD M. CHISHOLM

E. MANDELL DE WINDT*

*Executive Vice President-Operations,
Eaton Yale & Towne Inc.*

J. RICHARDSON DILWORTH

Rockefeller Family & Associates

ALFRED S. GLOSSBRENNER

Chairman, The Youngstown Sheet and Tube Company

JAMES A. HUGHES*

Vice Chairman of the Board, Diamond Alkali Company

HENRI P. JUNOD*

*Retired Vice Chairman of the Board,
Pickands Mather & Co.*

GEORGE S. LOCKWOOD, JR.

HORACE A. SHEPARD

President, TRW Inc.

JOHN SHERWIN†

*Members of Executive Committee

†Chairman of Executive Committee

Officers

and Members of the Board of Managers

JOHN SHERWIN, *Chairman of the Board*

KEITH S. BENSON, *President and Chief Executive Officer
Chairman of the Board of Managers*

DONALD M. CHISHOLM, *Vice President-Administration*

CHARLES S. ARMS, *Vice President-Planning*

ROGER P. BATCHELOR, JR.

Vice President-Engineering and Construction

JOHN H. BEMIS, *Vice President and President,
Milwaukee Solvay Coke Co. Division*

BERNARD F. BORDEL, *Vice President-Operations*

ROBERT S. CAREY, *Vice President-Ore Sales and Marine*

JOHN S. CRAWFORD, II, *Vice President-Coal Division*

FRANZ R. DYKSTRA, *Vice President and President,
Manganese Chemicals Co. Division*

ELTON HOYT, III, *Vice President-Pig Iron,
Ferroalloy and Coke Division*

• GEORGE S. LOCKWOOD, JR., *Vice President-Sales*

WILLIAM E. CONWAY

*Executive Vice President and Managing Director,
Pickands Mather & Co. International*

Other Corporate Officers

ROBERT MCINNES, *Secretary*

LEONARD J. GEE, *Treasurer*

RAYMOND G. HISCOX, *Controller*

ALLEN H. FORD, *Assistant to the Chairman*

Capital Stock

Common Stock and
\$1.15 Convertible Preferred Stock, Series A
Traded on the Over-The-Counter Market

Transfer Agent:

The Cleveland Trust Company
Euclid Avenue at East 9th Street
Cleveland, Ohio 44101

Registrar:

Society National Bank of Cleveland
127 Public Square
Cleveland, Ohio 44114

General Offices

2000 Union Commerce Building
Cleveland, Ohio 44115

